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SUBJECT: POSITIVE ECONOMIC NEWS FOR YEMEN: LNG DEAL TO BE
FINALIZED BY END OF MONTH

11. (SBU) Summary: Yemen's first billion dollar direct foreign investment project since the USS COLE Attack is near completion. The Yemen Liquefied Natural Gas Company (YLNG) is set to sign a major deal with the Korean Government to supply LNG for 20 years to the Korean Gas Company (Kogas). Jean-Francois Daganaud told Pol/Econ Deputy on February 8 that the project was complete except for some "red tape." He expects the deal to be inked this month. Beligan based Tractebel also announced an initial agreement to buy 2.5 million metric tons of natural gas from YLNG, likely to supply its two U.S. processing facilities. With these two offers in hand, Yemen LNG will shortly begin building a 2.5 billion dollar two train LNG plant. If all goes well, the first shipments will begin in late 2008. End summary.

ROYG almost gave up on LNG deal

12. (SBU) The Korean and Tractabel deals would be Yemen LNG's first business deal since its founding in 1995. Yemen LNG is jointly owned by Total who owns a 42.9 percent share, Yemen Gas Company (23.1 percent), Hunt (18 percent), SK Corporation (an affiliate of the South Korean Group - 10 percent) and Hyundai (6 percent). A long-time Total employee, Daganaud blamed the late 90s Asian economic collapse and subsequent security concerns in Yemen for the lack of a LNG buyer. According to Daganaud, the LNG market is heating up, especially with the advent of American buyers. Alluding to Yemen LNG Company's "difficult history," Daganaud said that he kept negotiations with the Koreans and Tractabel quiet in order to keep expectations low. Houston based Hunt Oil representatives told Ambassador last year that government officials were considering revoking YLNG's gas concession due to non-performance. Hunt officials also repeated allegations that Total was using Yemen as a reserve until Qatar's gas contracts are finalized.

Near Finalization with Tractebel and Kogas

13. (SBU) According to Press Reports, Yemen LNG was the lowest of five bidders to supply natural gas to the Korean Gas Company (Kogas), although Daganaud admitted that the large Korean ownership in YLNG helped their proposal. The South Korean tender was divided into three separate contracts between 1.5 and 2 million metric tons a year for LNG. According to some estimates, the total tender will be worth over 20 billion USD. Total Upstream Head Christophe de Margerie met President Saleh in early February, and Draganoud said the meetings went very well. Margerie told London-based Arabic daily al-Hayat that Total will also take 2 million tons a year of LNG. Daganaud stated that the Korean deal was 99.9 percent certain. Press reports the week of February 14 also noted that Yemen LNG signed a Heads of Agreement with Tractabel for 2.5 million tons of LNG a year. While officials at Tractebel remain silent on where the LNG will be shipped, most experts report that the gas is intended for its U.S. plants in Massachusetts and Louisiana. According to the reports, the Tractabel agreement is waiting for Yemen government approval. Between Total, Tractebel and the Kogas contract, YLNG would have buyers for its production capacity.

Near Certainty on Plant Construction

14. (SBU) YLNG commissioned two front end engineering studies on building a two train LNG plant in Bal Haf in the Shabwa Governorate 200 Km SW of the port of Muklalla. (U.S Bechtel and France's Technip designed plans are the front runners to win the tender.) A 320 Km pipeline from Hunt's Block 18 PSA will be built to supply the plant, which will have a 6.5 million metric ton per year capacity. Yemen LNG will invest 2.5 billion dollars over four years to make the plant operational by the end of 2008. When asked about security, Daganaud said the pipeline will be underground and the company plans an education campaign to explain the dangers of LNG pipelines.

15. (SBU) Daganaud explained that YLNG has the concession for all of the LNG in Hunt's Block 18 in Marib. Affirming that

the gas operation is not connected to Hunt's lengthy PSA-negotiations, Daganand assured Pol/Econ Deputy that YLNG would have no Parliamentary interference in its activities. Hunt GM Wyndell Caviness cautioned that if the Hunt PSA extension (reftel) did not get approved by Parliament, the South Koreans may get scared and cancel the deal.

LNG To Replace Oil Declines?

16. (SBU) Comment: With oil production declining, LNG sales offer the first viable alternative to the ROYG's nearly complete dependence on oil revenue. Yemen LNG claims that there are 10.2 Trillion Cubic Feet of natural gas reserves in its concession. While the LNG market is hard to predict, it is unlikely that LNG production will be fully able to compensate the nearly 3.5 billion dollars of revenue Yemen currently receives from oil. Still, the YLNG deal, once finalized, is the most significant step toward economic sustainability Yemen has seen in several years. If YLNG is successful, more foreign direct investment could be forthcoming. End comment.
Krajeski